

**REPORT OF THE AUDIT OF THE
PULASKI COUNTY
SCHOOL DISTRICT**

**For The Fiscal Year Ended
June 30, 2012**

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Members of the Board
Pulaski County School District
Somerset, Kentucky

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pulaski County School District, Somerset, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pulaski County School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 7 and budgetary comparison information on pages 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other

INDEPENDENT AUDITOR'S REPORT
(Continued)

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pulaski County School District's basic financial statements as a whole. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Pulaski County School District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive, flowing style.

Ross and Company, PLLC
November 13, 2012

**PULASKI COUNTY SCHOOL DISTRICT
SOMERSET, KENTUCKY
Management's Discussion and Analysis (MD & A)
Year Ended June 30, 2012**

As management of the Pulaski County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning and ending balance for the District's General Fund was \$2,499,323 and \$3,445,882, respectively.
- The General Fund had \$ 62.04 million in revenue, including interfund transfers and beginning balance, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Including inter-fund transfers, there was \$58.59 million in General Fund expenditures.
- SEEK revenue for 2011-2012 was forecasted in January of 2011. Districts were not given updated numbers until December 16, 2011; almost 3 months after working budgets were finalized. In October, the Education Commissioner eluded to a smaller shortfall than the year prior which calculated to an estimated \$250,000 to \$300,000 loss for our district. At the close of the fiscal year, Pulaski County received \$698,815 less than forecasted in Net General Fund SEEK for the fiscal year, or 97.7% of the forecasted amount. We received 98.12% of State allocated SEEK the year prior. All school districts were denied full payment of SEEK dollars. Interest income rebounded in the General Fund to \$194,264 up from \$101,846. Utility tax receipts decreased slightly from \$3,024,935 to \$2,959,157. Property tax revenue proved to be an unprecedented collection year. In February, the district had received only \$8,249,531 in General Fund property taxes. February is typically the last month that we receive substantial property tax receipt amounts due to the January deadline. This amount was dangerously lower than the budgeted \$9,090,531. However, the district surprisingly received \$957,381 in tax receipts beyond February. We collected \$116,380 more than budgeted. Tax receipts from motor vehicle taxes increased from \$1,644,690 to \$1,729,494. Delinquent tax revenue continued on the upward climb from \$324,968 up to \$388,868. Management attributes the slow collections of property tax and increase in delinquent tax revenue to the current state of the local, state, and federal economy.
- CERS rates were 18.96% for the employer share. KTRS had an employer share rate for the second year equal to 0.50%. The employer rate will increase each year incrementally until 2015 when the rate is currently slated to level at 3.0%. This will be a drastic increase in employer costs for the Pulaski County Board of Education which is currently an estimated \$1 million for KTRS costs alone in the year 2015.
- The State continued a relaxed approach to utilizing Capital Fund Monies for Fiscal Years 2010-2011 and 2011-2012. The District requested and was granted the use of \$1,271,616 from the Capital Outlay Fund and Building Fund that was not being utilized for debt service to aid in paying electricity costs and insurance costs for the 2011-2012 year. The District also used an additional \$120,000 for an asphalt repair at Burnside Elementary that had become a hazard. Also, the SFCC allowed remaining Construction Fund monies to be utilized for Districts that had needs. Pulaski County utilized \$125,106 of the remaining funds from a previous project at Southwestern High

FINANCIAL HIGHLIGHTS (CONTINUED)

School to fund and pay for the resurfacing of the track on that campus. The track had reached a state of disarray that would prevent track meets from being held at the school.

- The District also continued a major renovation project at Southern Middle School to alleviate overcrowding, fix a faulty roofing system, and to provide space for the Youth Service Center. During construction it was discovered that the sewer system had failed. In order to have the school functional by the beginning of the 2012-2013 school year, measures were taken to completely overhaul the system which entailed digging up hallways, bathroom floors, classrooms. Construction also began at Pulaski County High School to remodel and upgrade a small wing that was added in 1982. Also included in the renovation were technology upgrades. Pulaski County High was the only remaining school in the district that had not been upgraded.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities.) The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are the day care and food service operations. All other activities of the District are included in the governmental funds.

The governmental fund financial statements can be found on pages 10 and 12.

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statement can be found on pages 19-34.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$13,697,000 as of June 30, 2012.

A portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2012 and 2011, respectively:

ASSETS	2012	2011
Total current assets	\$ 11,507,123	\$ 16,44,5229
Total non-current assets	76,670,115	71,429,015
Total assets	<u>88,197,238</u>	<u>87,873,544</u>
LIABILITIES		
Total current liabilities	\$ 7,949,301	\$ 8,270,066
Total non-current liabilities	66,550,937	65,646,211
Total liabilities	<u>74,500,238</u>	<u>73,916,277</u>
NET ASSETS		
Invested in capital assets, net of related debt	7,079,520	2,810,462
Restricted	5,657,227	10,955,508
Unrestricted	960,253	191,297
Total net assets	<u>13,697,000</u>	<u>13,957,267</u>
	<u>\$ 88,197,238</u>	<u>\$ 87,873,544</u>

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

The following table presents a summary of General Fund revenue and expense for the fiscal year ended June 30, 2012.

Revenues	<u>General Fund</u>
From local sources	\$ 15,222,746
State sources	42,656,137
Federal - indirect	-
Other sources	<u>1,662,606</u>
Total revenues	<u>59,541,489</u>
Expenditures	
Instruction	37,731,526
Support services	
Student	3,296,949
Instruction staff	2,425,253
District administration	2,109,418
School administration	2,397,491
Business	428,666
Plant operation and maintenance	5,351,519
Student transportation	3,818,555
Adult education	3,081
Facilities acquisition and construction	15,000
Interfund Transfers	<u>1,017,472</u>
Total expenditures	<u>58,594,930</u>
Excess (deficit) of revenues over expenditures	<u>\$ 946,559</u>

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2012, including inter-fund transfers and on-behalf payments, were \$62,040,812 including a beginning balance of \$2,499,323.
- General fund budget (excluding on-behalf revenues) compared to actual revenue varied slightly from line item to line item with the ending actual revenues being \$2,555,135 more than budgeted by 5.46 favorable percentage points. This is due largely in part to the use of Capital Funds.
- General fund budget expenditures (excluding on-behalf payments) to actual varied from line item to line item with the ending actual expenditures being \$944,154 less than budgeted by 2.01 percentage points.

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget for 2013 with \$2,477,978 or 5.03% in contingency.

Questions regarding this report should be directed to **Steve Butcher, Superintendent**, or **Rebecca Wright, Finance Officer** at 606-679-1123 or by mail at P O Box 1055, Somerset, KY 42502.

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

For the fiscal year ending June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Pulaski County School District (District) is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Pulaski County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

Pulaski County School District Finance Corporation – The Pulaski County School District resolved to authorize the establishment of the Pulaski County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The board members of the Pulaski County School District also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements:

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements: (Continued)

funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting:

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is always a major fund of the district.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. KDE requires this fund to be a major fund.

Construction Fund – The Construction Fund is used to account for all resources including proceeds from bond sales for the authorized acquisition and construction of capital facilities.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives \$100 per the District's adjusted average daily attendance restricted for use in financing projects as identified in the District's facility plan. This is a major fund.

Building Fund - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, as applicable. Funds may be used for projects identified in the District's facility plan.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Type

Food Service - The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of USDA commodities on the financial statements. This is a major fund.

Child Care - The Child Care Fund accounts for the funds generated at individuals schools providing after school care for children.

Adult Education - The Adult Education Fund accounts for the funds to provide educational programs to the community.

Fiduciary Fund Type

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Accounting Procedures for Kentucky School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, "available" means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

On the government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Budget

The District is required by state law to adopt a budget annually. The budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget (Continued)

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Once the District approves the budget, it can be amended. Budget appropriations lapse at year-end.

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Nonspendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. At June 30, 2012, the District did not have a non-spendable fund balance.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$3,897,812 as restricted capital projects in the Construction Fund and \$249,180 restricted in the Building Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had \$302,228 committed for sick leave payable at June 30, 2012.

Assigned fund balances are those amounts that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. Assigned fund balances also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for specific purposes. The district had \$62,509 assigned for purchase obligations in the Construction Fund at June 30, 2012.

Unassigned fund balance is the residual classification for the general fund. This classification represents a fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2012, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$6,978,722 and the combined bank balances totaled \$8,054,717. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2012.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

NOTE 3. PROPERTY TAXES

Revenues and other governmental fund financial resource increments (i.e. bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become measurable and available to finance expenditures of the fiscal periods. Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, collection date is the period from November 1 through December 31. Collections from the period November 1 through November 30 receive a two percent discount. The due date is the period from December 1 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien filed by the County Attorney.

NOTE 4. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The Kentucky Local School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance.

NOTE 4. RETIREMENT PLANS (CONTINUED)

Kentucky Teachers' Retirement System (Continued)

Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

The Pulaski County School District total payroll for the year was \$45,995,020. For the year ended June 30, 2012, the Commonwealth contributed \$4,071,094 to KTRS for the benefit of participating employees. The School districts contributions to KTRS for the year ending June 30, 2012 were \$490,074.

County Employees Retirement System

Plan Description - The County Employees Retirement System (CERS) administered by the Kentucky Retirement System (KRS) is a cost-sharing multiple-employer defined benefit public employee retirement system. The plan provides benefit pension plan coverage for substantially all regular non-certified, full-time employees of each county and Public Schools, and any additional eligible local agencies electing to participate in the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

CERS through KRS provides for retirement, disability, death, and survivor and health benefits of its members. The KRS annual financial report and other required disclosure information is available by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by calling (800) 928-4646.

Funding Status and Progress - The Kentucky Retirement System administers CERS based upon employer matching contributions from each county, Public Schools and eligible local agencies electing to participate in the System. The Board of Trustees of Kentucky Retirement Systems determines contribution rates each biennium. The following are CERS non-hazardous contribution rates for the year ended June 30, 2012 member is 5% of their salaries. Participation after September 1, 2008 is at the rate of 6%. The District is required to contribute 18.96 %.

The contribution requirement for CERS for the year ended June 30, 2012, was \$2,533,089, which consisted of \$1,993,881 from the District and \$539,208 from employees.

Additional information and historical trend information can be obtained from the Teachers Retirement System of Kentucky and the County Employee Retirement System of Kentucky

NOTE 5. LIABILITY FOR COMPENSATED ABSENCES

Certified employees are awarded a maximum of 10 days of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2012, the estimate for those employees with 27 or more years of service is \$957,723, in which \$302,228 is short-term and \$655,495 is long term, both reported on the District-wide financial statements.

NOTE 6. CAPITAL ASSETS

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food services equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 6. CAPITAL ASSETS (CONTINUED)

Governmental Assets	June 30, 2011	Additions	Retirements	June 30, 2012
Cost				
Land	\$ 3,495,670	\$ -	\$ -	\$ 3,495,670
Land Improvements	-	133,171	-	133,171
Buildings & Improvements	85,672,129	190,399	-	85,862,528
Technology Equipment	7,878,335	669,100	(380,413)	8,167,022
Other	1,118,585	-	-	1,118,585
Vehicles	9,461,252	612,110	(50,147)	10,023,215
Construction in Progress	1,584,403	7,036,747	-	8,621,150
Totals at historical cost	109,210,374	8,641,527	(430,560)	117,421,341
Less: Accumulated Depreciation				
Land Improvements	-	7,768	-	7,768
Buildings & Improvements	25,757,599	1,740,698	-	27,498,297
Technology Equipment	6,083,027	928,095	(379,594)	6,631,528
Other	882,157	40,525	-	922,682
Vehicles	5,787,556	595,068	(50,146)	6,332,478
Total accumulated depreciation	38,510,339	3,304,386	(429,740)	41,392,753
Net Fixed Assets - Government	\$ 70,700,035	\$ 5,337,141	\$ (820)	\$ 76,028,588
Business Assets				
Technology Equipment	\$ 57,462	\$ -	\$ (1,405)	\$ 56,057
Vehicles	27,330	-	-	27,330
General Equipment	2,294,829	4,971	-	2,299,800
Totals at historical cost	2,379,621	4,971	(1,405)	2,383,187
Less: Accumulated Depreciation				
Technology Equipment	57,401	61	(1,405)	56,057
Vehicles	27,330	-	-	27,330
General Equipment	1,565,909	72,364	-	1,638,273
Total accumulated depreciation	1,650,640	72,425	(1,405)	1,721,660
Net Fixed Assets - Business Type	\$ 728,981	\$ (67,454)	\$ -	\$ 661,527

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Pulaski County School District Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in accordance with state law.

The issue date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2011			2012
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
Issue of 1993	490,000	8/1/2013	4.5-5%	\$ 105,000	\$ -	\$ 35,000	\$ 70,000
Issue of 1998	7,480,137	7/1/2012	4-4.2%	3,250,000	-	1,590,000	1,660,000
Issue of 2003	2,240,000	8/1/2023	2-4.1%	2,030,000	-	30,000	2,000,000
Issue of 2004	2,370,000	5/1/2024	2-5%	1,710,000	-	60,000	1,650,000
Issue of 2004 R	1,365,000	9/1/2015	2-3.75%	665,000	-	85,000	580,000
Issue of 2006	4,540,000	4/1/2026	3.75-4.25%	4,425,000	-	10,000	4,415,000
Issue of 2006 R	940,000	7/1/2016	3.75-4.25%	585,000	-	90,000	495,000
Issue of 2007	3,125,000	6/1/2027	3.5-3.7%	2,660,000	-	125,000	2,535,000
Issue of 2009	24,435,000	2029	3.5-4.25%	24,355,000	-	45,000	24,310,000
Issue of 2009 BR	4,660,000	2018	2.0-3.0%	4,320,000	-	320,000	4,000,000
Issue of 2009 R	2,460,000	10/1/2020	2.00-3.25%	2,330,000	-	60,000	2,270,000
QZAB	1,524,865	5/30/2015	N/A	508,288	-	127,072	381,216
Issue 2010	9,340,000	5/1/2022	1.00-2.75%	9,125,000		145,000	8,980,000
Issue of 2011	9,295,000	3/1/2031	1.00-4.250%	9,295,000		180,000	9,115,000
Issue of 2012	3,185,000	1/1/2032		-	3,185,000	-	3,185,000
				<u>\$ 65,363,288</u>	<u>\$ 3,185,000</u>	<u>\$ 2,902,072</u>	<u>\$ 65,646,216</u>

The District has entered into “participation agreements” with the School Facilities Commission. The Kentucky General Assembly created the Commission for the purposes of assisting local school districts in meeting school construction needs. The table on the following page sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State’s biennial budget.

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District including amount to be paid by the Commission, at June 30, 2012 for debt service, (principal and interest) are shown on as follows:

PULASKI COUNTY SCHOOL DISTRICT SCHEDULE OF DEBT PAYMENTS AS OF JUNE 30, 2012					
YEAR	PULASKI COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013	\$ 2,530,277	\$ 2,115,169	\$ 551,795	\$ 192,862	\$ 5,390,103
2014	2,590,367	2,058,575	411,705	176,819	5,237,466
2015	2,591,191	1,995,790	390,881	164,110	5,141,972
2016	2,655,952	1,930,628	399,048	151,363	5,136,991
2017	2,732,589	1,854,653	392,411	138,302	5,117,955
2018	2,809,057	1,777,998	375,943	125,300	5,088,298
2019	2,890,366	1,696,210	354,634	112,448	5,053,658
2020	2,968,124	1,615,292	256,876	101,010	4,941,302
2021	3,062,684	1,523,837	267,316	90,571	4,944,408
2022	3,151,749	1,431,677	278,251	79,636	4,941,313
2023	3,255,346	1,327,518	289,654	68,233	4,940,751
2024	3,388,619	1,194,941	291,381	56,507	4,931,448
2025	3,525,036	1,063,543	269,964	45,102	4,903,645
2026	3,668,682	918,279	281,318	33,748	4,902,027
2027	3,821,770	764,141	293,230	21,835	4,900,976
2028	3,986,029	603,595	88,971	9,419	4,688,014
2029	4,152,294	435,954	92,706	5,685	4,686,639
2030	2,909,494	261,001	20,506	1,769	3,192,770
2031	3,028,633	143,979	21,367	908	3,194,887
2032	600,000	20,250	-	-	620,250
TOTAL	<u>\$ 60,318,259</u>	<u>\$24,733,030</u>	<u>\$ 5,327,957</u>	<u>\$ 1,575,627</u>	<u>\$ 91,954,873</u>

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NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

The issue date, original amounts of the issue and interest rates are summarized below:

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2011			2012
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2005	730,461	3/1/2015	3-3.625%	\$ 292,646	\$ -	\$ 76,234	\$ 216,412
2006	778,099	3/1/2016	3-3.4%	393,721	-	79,260	314,461
2006B	832,676	3/1/2017	3.5-3.875%	515,070	-	82,613	432,457
2007 New Market	2,010,200	11/1/2011	N/A	201,020	-	201,020	-
2008	860,032	3/1/2018	3.0-3.75%	599,804	-	81,603	518,201
2009	759,027	3/1/2019	2.0-3.90%	596,079	-	70,555	525,524
2009B	741,801	3/1/2020	2.0-3.60%	664,670	-	81,826	582,844
2011	837,429	3/1/2021	1.0-4.0%	-	837,429	90,568	746,861
2012	627,619	3/1/2022	2.-2.65%	-	627,619	-	627,619
TOTALS				\$ 3,263,010	\$1,465,048	\$ 763,679	\$ 3,964,379

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

**PULASKI COUNTY SCHOOL DISTRICT
SCHEDULE OF KISTA PAYMENTS
AS OF JUNE 30, 2012**

<u>YEAR</u>	PULASKI COUNTY SCHOOL DISTRICT		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2013	\$ 633,081	\$ 122,613	\$ 755,694
2014	623,552	104,421	727,973
2015	614,726	86,061	700,787
2016	545,181	66,990	612,171
2017	467,908	49,570	517,478
2018	381,237	34,658	415,895
2019	294,235	22,453	316,688
2020	212,248	12,918	225,166
2021	134,321	6,049	140,370
2022	57,890	1,520	59,410
TOTAL	\$ 3,964,379	\$ 507,253	\$ 4,471,632

NOTE 8. OPERATING FUND TRANSFERS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	Building	Capital Outlay	Capital Funds Request	\$ 1,113,524
Operating	General	Debt Service	KISTA payment	757,462
Operating	General	School Based Board	Close out account	260,010
Operating	Building	Debt Service	Bond payment	4,121,837
Operating	Capital Outlay	General Fund	Capital Outlay Expenses	278,093
Operating	Capital Outlay	Debt Service	Bond payments	445,557
Operating	Food Service	General Fund	Indirect Cost	198,646
Total Transfers				\$ 7,175,129

NOTE 9. DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance/net assets. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net assets

Construction Fund	(4,476,804)
Building Fund	(1,021,811)

NOTE 10. RISK MANAGEMENT

Liability Insurance Coverage

The District is exposed to various risks related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District has commercial insurance through Kentucky School District Insurance Trust Liability Insurance fund. The District pays an annual premium for coverage.

Health Care Coverage

Full-time employees of the District are covered by the State administered medical insurance plan. The State contributes a variable amount to each employee's account based upon the employees' plan choice. Medical insurance coverage paid by the State on behalf of District employees has been recorded as a revenue and expenditure in the General Fund. Under COBRA, employers are mandated to notify Ceridian Benefits Services of terminated employees. Ceridian Benefit Services then notifies terminated employees of available continuing insurance coverage. Failure to notify Ceridian Benefits Services of this requirement can put the District at risk of paying the premiums.

Worker's Compensation

The District participates in Kentucky School Districts Insurance Trust. Contributions to the Worker's Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

NOTE 10. RISK MANAGEMENT (CONTINUED)

Unemployment Insurance

The District obtains unemployment insurance coverage through the Kentucky Board of Education's Insurance Trust Unemployment Compensation Fund; however, the risk has not been transferred to such fund.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

The Board of Education is the defendant in a number of lawsuits arising principally in the normal course of operations. The Board is covered by insurance against this type of liability. At this time, the administration is unable to make an evaluation regarding the likelihood of an unfavorable outcome or any possible financial implication to the Board of Education

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements.

NOTE 12. PRIOR PERIOD ADJUSTMENT

The Government-Wide financial statements' beginning balance did not reflect accurately the actual beginning net assets due to a lease obligation not being accounted for.

Net Assets July 1, 2011	\$ 12,252,979
Prior Period Adjustment	(837,429)
Restated Net Assets July 1, 2011	<u>\$ 11,415,550</u>

NOTE 13. BUDGETARY DISCLOSURE REQUIREMENTS

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations did not reflect this change in policy.

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 14. ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2012 was \$12,670,768. These payments were recorded in the General Fund.

PULASKI COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

NOTE A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of the Pulaski County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B. FOOD DISTRIBUTION PROGRAM

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities passed through the U.S. Dept. of Agriculture during the year totaled \$304,374 with the USDA providing \$274,374 and \$30,000 received from the U.S. Department of Defense.

PULASKI COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2012

1. SUMMARY OF AUDITOR'S FINDINGS

Financial Statements:

Type of auditor's report issued:	unqualified
Internal control over financial reporting	Yes No
• Material weaknesses identified?	X
• Significant deficiencies identified that are not considered to be material weaknesses?	X
• Noncompliance material to financial statements noted?	X

Federal Awards:

Internal control over major programs	Yes No
• Material weakness identified?	X
• Significant deficiencies identified that are not considered to be material weaknesses?	X None reported

Type of auditor's report issued on compliance for major programs:	unqualified
	Yes No
• Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	X

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.010, 84.389	Title I Cluster
84.027, 84.173, 84.392	Special Education Cluster
84.334	GEAR-UP
84.358	Rural & Low Income Schools

- Dollar threshold used to distinguish between type A and type B programs \$354,000
- Auditee qualified as low-risk auditee? Yes X No

2. FINANCIAL STATEMENT FINDINGS

2012-01 Cash Reconciliation

Statement of Condition: Bank reconciliation at June 30, 2012 was out by an immaterial amount.

Criteria for Condition: Good internal control dictates bank statements should be reconciled monthly and agreed to the receipts and disbursements ledgers.

Cause of the Condition: A procedure or program error is causing the MUNIS system not to reconcile properly.

Effect of the Condition: Cash is not accurately stated for financial reporting purposes.

Recommendation for

Correction: Correct the program error to ensure proper bank reconciliation reporting.

Superintendent

Response: Management is aware that there is an issue. Both District Finance Officers as well as Ross & Company staff have attempted to resolve the issue. [Auditors] will be consulting with Management in the near future to help staff determine the cause and then correct the issue.

2012-02 Inadequate Pledge of Securities to Protect Deposits

Statement of Condition: At February 13, 2012, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$2,644,315 of public funds uninsured and unsecured.

Criteria for Condition: According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. This includes all accounts under the District's federal ID number, however does not include non-interest bearing accounts.

Cause of the Condition: Activity funds accounts were not originally included in the pledge; however they were created under the District's federal ID number.

Effect of the Condition: Public funds were uninsured and unsecured.

Recommendation for

Correction: We recommend the District increase their pledge of securities by an amount sufficient to adequately protect deposits.

Superintendent

Response: Management will include Activity Accounts when determining the amount of pledge needed. Management will closely monitor the daily balances for upcoming non-routine deposits to determine if the pledge is sufficient. If it is determined it is not, the security pledge will be increased in adequate time to sufficiently secure all deposited funds.

Prior Year: None

PULASKI COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

3. FEDERAL AWARDS FINDINGS & QUESTIONED COSTS

Current Year:

No current year findings at the major federal award programs level.

Prior Year:

No prior year findings at the major federal award programs level.

PULASKI COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2012

No prior year findings at the financial statement level.

No prior year findings at the major federal award programs level.

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Members of the Board
Pulaski County School District
Somerset, Kentucky

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pulaski County School District, Somerset, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 13, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report.

Internal Control over Financial Reporting

Management of Pulaski County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pulaski County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pulaski County School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)

financial reporting, described in the accompanying schedule of findings and questioned cost that we consider to be significant deficiencies in internal control over financial reporting, 2012-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

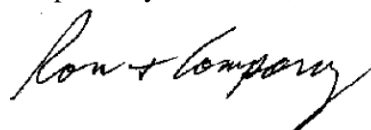
As part of obtaining reasonable assurance about whether the Pulaski County School District's financial statements for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation indentified in Appendix II of the Independent Auditor's Contract- State Audit Requirements.

We noted certain matters that we reported to management of the Pulaski County School District, in a separate letter dated November 13, 2012.

Pulaski County School District's response to the findings in our audit, if any, is described in the accompanying schedule of findings and questioned costs. We did not audit Pulaski County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the members of the Pulaski County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Ross and Company, PLLC
November 13, 2012

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Members of the Board
Pulaski County School District
Somerset, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited Pulaski County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Pulaski County School District's major federal programs for the year ended June 30, 2012. Pulaski County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pulaski County School District's management. Our responsibility is to express an opinion on Pulaski County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pulaski County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pulaski County School District's compliance with those requirements.

In our opinion, Pulaski County School District complied, in all material respects, with the compliance requirements referred to above that could have direct or material effect on each of its major federal programs for the year ended June 30, 2012.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control over Compliance

Management of Pulaski County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pulaski County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pulaski County School District's internal control over compliance.

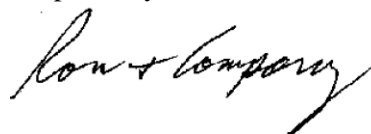
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider material weaknesses as defined above.

Pulaski County School District's response to the findings identified in our audit, if any, is described in the accompanying schedule of findings and questioned costs. We did not audit the Pulaski County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the members of the Pulaski County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
November 13, 2012

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Pulaski County School District
Somerset, Kentucky

RECOMMENDATIONS AND COMMENTS TO MANAGEMENT

In planning and performing our audit, we considered Pulaski County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pulaski County School District's internal control over financial reporting.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 13, 2012. This letter does not affect our report dated November 13, 2012, on the financial statements of the Pulaski County School District. The conditions observed are as follows:

Current Year Findings –

2012-01 Cash Reconciliation

Statement of Condition: Bank reconciliation at June 30, 2012 was out by an immaterial amount.

Criteria for Condition: Good internal control dictates bank statements should be reconciled monthly and agreed to the receipts and disbursements ledgers.

Cause of the Condition: A procedure or program error is causing the MUNIS system not to reconcile properly.

Effect of the Condition: Cash is not accurately stated for financial reporting purposes.

Recommendation for

Correction: Correct the program error to ensure proper bank reconciliation reporting.

Management Response:

Management is aware that there is an issue. Both District Finance Officers as well as Ross & Company staff have attempted to resolve the issue. [Auditor] will be consulting with Management in the near future to help staff determine the cause and then correct the issue.

PULASKI COUNTY SCHOOL DISTRICT
RECOMMENDATIONS AND COMMENTS TO MANAGEMENT
JUNE 30, 2012
(Continued)

2012-02 Inadequate Pledge of Securities to Protect Deposits

Statement of Condition: At February 13, 2012, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$2,644,315 of public funds uninsured and unsecured.

Criteria for Condition: According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. This includes all accounts under the District's federal ID number, however does not include non-interest bearing accounts.

Cause of the Condition: Activity funds accounts were not originally included in the pledge; however they were created under the District's federal ID number.

Effect of the Condition: Public funds were uninsured and unsecured.

Recommendation for Correction: We recommend the District increase their pledge of securities by an amount sufficient to adequately protect deposits.

Management Response:

Management will include Activity Accounts when determining the amount of pledge needed. Management will closely monitor the daily balances for upcoming non-routine deposits to determine if the pledge is sufficient. If it is determined it is not, the security pledge will be increased in adequate time to sufficiently secure all deposited funds.

2012-03: Handling Cash, (All Schools) (REPEAT)

Statement of Condition: All money collected by a teacher/sponsor shall be given to the school treasurer on the day of collection.

Criteria for Condition: All money collected by a teacher/sponsor shall be given to the school treasurer on the day of collection per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: It appeared teachers/sponsors held money/checks for a length of time before submitting them to the school treasurer.

Effect of the Condition: Money is not deposited in a timely manner.

Recommendation for Correction: Stress to teachers/sponsor that all money should be delivered to school treasurer on date of collection.

Management Response:

Management will ensure the education of teachers/sponsors through their school Principal and/or Bookkeeper the proper procedures for handling cash with an emphasis on daily collections.

PULASKI COUNTY SCHOOL DISTRICT
RECOMMENDATIONS AND COMMENTS TO MANAGEMENT
JUNE 30, 2012
(Continued)

2012-04: Deposits over \$100, (Redbook)

Statement of Condition: All money collected should be deposited on a daily basis, unless under \$100. This includes ticket sales of night events (next business day).

Criteria for Condition: All money collected should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, small amounts may be held in a secure location per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Deposits were being created with amounts over \$100, however, they were being held for a week or longer before being delivered to the bank.

Effect of the Condition: Money is not deposited in a timely manner.

*Recommendation for
Correction:* Deposits over \$100 should be delivered to the bank on the same day as the deposit is created.

Management Response:

Management will offer continuing education/Redbook training for all appropriate staff as well as complete random spot check to ensure proper deposits.

2012-05: Fixed Assets, (Redbook)

Statement of Condition: Fixed Assets should be purchased through the District, and then reimbursed through Activity Funds.

Criteria for Condition: All items purchased considered to be assets of the District should be reported in the District's MUNIS as a fixed asset per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: One asset was purchased through Activity Funds and not recorded as a Fixed Asset by the District.

Effect of the Condition: Fixed Assets are understated.

*Recommendation for
Correction:* Make certain school treasurer and principal understand the procedures for purchasing Fixed Assets. Schools wishing to purchase Fixed Assets are to have the District purchase the asset and then reimburse the District through Activity Funds.

Management Response:

Management has sent reminders to all schools and appropriate District staff that all Fixed Asset purchases are to be handled at the District office level and reimburse the District with activity funds when applicable.

PULASKI COUNTY SCHOOL DISTRICT
RECOMMENDATIONS AND COMMENTS TO MANAGEMENT
JUNE 30, 2012
(Continued)

2012-06 Activity Funds Used For Basic Routine Operations and Maintenance (RedBook)

Statement of Condition: Carpet should not be purchased with activity fund monies.

Criteria for Condition: School activity funds shall not be used to pay for basic routine operating expenses, renovations or maintenance of school facilities or buildings per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Purchases were made for carpet from activity fund monies.

Effect of the Condition: School activity money generated by students may be used to provide student incentives for scholarship, athletics, specialized area performance, school spirit, and similar achievements.

Recommendation for

Correction: Board should cover expenses such as renovations or maintenance instead of individual school activity funds.

Management Response:

Management will offer continued education with Redbook training. The District will reimburse the school the activity funds spent on the maintenance item.

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations at your convenience.

Prior year comments- None

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff again this year. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,



Ross & Company, PLLC
November 13, 2012